

TOWNSHIP OF LEE
Midland County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2006

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of Lee	County Midland
Audit Date March 31, 2006	Opinion Date July 28, 2006	Date Accountant Report Submitted to State: July 28, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- yes no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- yes no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- yes no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- yes no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- yes no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- yes no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- yes no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- yes no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- yes no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686	City Bay City	State MI	Zip 48707
Accountant Signature <i>Campbell, Kusterer & Co. P.C.</i>			

TOWNSHIP OF LEE
Midland County, Michigan

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2-7
Basic Financial Statements:	
Government-wide Financial Statements:	
Government-wide Statement of Net Assets	8
Government-wide Statement of Activities	9
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	10
Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Assets	11
Statement of Revenues, Expenditures, and Changes in Fund Balances	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Notes to Financial Statements	14-19
Required Supplemental Information:	
Budgetary Comparison Schedule – General Fund	20
Budgetary Comparison Schedule – Fire Fund	21
Budgetary Comparison Schedule – Solid Waste Fund	22
Other supporting information:	
General Fund Expenditures by Detailed Account	23-24
Combining Balance Sheet – All Special Revenue Funds	25
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – All Special Revenue Funds	26
Current Tax Collection Fund – Statement of Changes in Assets and Liabilities	27
Current Tax Collection Fund – Statement of Cash Receipts and Disbursements	28

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

July 28, 2006

To the Township Board
Township of Lee
Midland County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of Lee, Midland County, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Lee's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Lee, Midland County, Michigan as of March 31, 2006, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF LEE
Midland County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended March 31, 2006

As Management of Lee Township, we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended March 31, 2006. We encourage readers to consider the information presented here in conjunction with the financial report.

FINANCIAL HIGHLIGHTS

The assets of the Township exceeded its liabilities at the close of the most recent fiscal year by \$1,723,647.14 (net assets). Of this amount, \$1,415,297.50 (unrestricted net assets) may be used to meet the government's ongoing obligations to the citizens and creditors.

The Township's governmental funds reported combined ending fund balances of \$1,415,297.50, an increase of \$160,186.67 in comparison with the prior year. The total of the fund balances available for spending at the government's discretion (unreserved-undesignated fund balance).

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction of the Township's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

ENTITY-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., special assessments).

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Township include legislative, general government, public safety, and public works. The Township currently does not have operations that are classified as business-type activities.

The government-wide financial statements can be found on pages 8 and 9 of this report.

TOWNSHIP OF LEE
Midland County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2006

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Township maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Fire Fund and Solid Waste Fund, all of which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The Township adopts an annual appropriated budget for its general fund and all major special revenue fund types. Budgetary comparison statements have been provided in the supplemental section of the report to demonstrate the extent of compliance with these budgets.

The basic governmental fund financial statements can be found on pages 10 and 12 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Township's own programs. Currently the Township has one fund that is an agency type fund.

The basic fiduciary fund financial statements can be found on pages 27 and 28 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 14 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information in connection with major and nonmajor governmental funds. Combining and individual fund statements and schedules can be found on pages 25 and 26 of this report.

TOWNSHIP OF LEE
Midland County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2006

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

The following summaries provide a perspective of the financial information of the Township as a whole:

Lee Township's Net Assets.	
Current and other assets	\$ 1 482 685 94
Capital assets	308 349 64
Total assets	1 791 035 58
Current liabilities outstanding	67 388 44
Non-current liabilities	-
Total liabilities	67 388 44
Net assets:	
Invested in capital assets, net of related debt	308 349 64
Restricted	-
Unrestricted	1 415 297 50
Total net assets	\$ 1 723 647 14

TOWNSHIP OF LEE
Midland County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2006

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE (cont.)

Lee Township's Changes in Net Assets

Revenues:

Program revenues:

Charges for Services	\$ 59 319 40
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General Revenues:

Property taxes	56 878 20
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Other	704 958 64
-------	------------

Total Revenues	761 836 84
----------------	------------

Expenses:

Legislative	32 591 81
-------------	-----------

General Government	122 899 35
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Public Safety	161 007 61
---------------	------------

Public Works	265 061 92
--------------	------------

Recreation and Culture	44 595 98
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Total Expenses	626 156 67
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Increase in assets before transfers	135 680 17
-------------------------------------	------------

Transfers	-
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Increase in net assets	135 680 17
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Net assets- April 1	1 587 966 97
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Net Assets- March 31	1 723 647 14
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TOWNSHIP OF LEE
Midland County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2006

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE (cont.)

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Lee Township, assets exceeded liabilities by \$1,723,647.14 at the close of the fiscal year ended March 31, 2006.

A portion of the Township's net assets (17.8 percent) reflects its investment in capital assets (e.g., land, equipment, infrastructure), less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of unrestricted net assets (\$1,415,297.50) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net assets for the government as a whole.

Governmental activities. Governmental activities increased the Township's net assets by \$135,680.17. The key element of this increase as stated above was the influx of special assessments that were used for infrastructure improvements.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$1,415,297.50, an increase of \$160,186.67 in comparison with the prior year. The total ending fund balance constitutes unreserved fund balance, which is available for spending at the government's discretion.

The General fund is the chief operating fund of the Township. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,037,034.01.

The fund balance of the Township's general fund increased by \$74,002.77 during the current fiscal year.

The Fire Fund experienced an increase of \$56,048.17 in its fund balance. This increase is due primarily to an increase in fire contract revenues.

The Solid Waste Fund experienced an increase of \$29,030.07 and this increase is consistent with prior years.

Nonmajor Governmental fund increases in fund balance occurred and are consistent with increases experienced by the Township in recent years.

TOWNSHIP OF LEE
Midland County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2006

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS (cont.)

General Fund Budgetary Highlights

In order to fully comply with the reporting requirements of GASB 34, the financial statements are prepared on the modified accrual basis of accounting, however, the Township's budget was prepared on the cash basis of accounting. Revenues and expenditures are reported only as a result of cash transactions.

For the fiscal year of 2005-2006 Lee Township continued its practice of building up fund balance in its General and Special Revenue Funds. The annual budget was approved by the Township board in March of 2005 as required by the State of Michigan, and was amended by the Board throughout the fiscal year of 2005-2006.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township's governmental activities invested \$0 in capital assets.

The Township's governmental activities paid \$0 of principal on long-term debt.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

As the Township continues to grow in size and services the economic factors will certainly change and reflect the direction that the community has taken. The Board and staff of the Township are committed to working together to get the most out of every dollar and serve in the most responsible manner possible.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Township Hall.

TOWNSHIP OF LEE
Midland County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS

March 31, 2006

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	1 362 334 37
Petty cash	400 00
Taxes receivable	7 933 33
Special assessments receivable	47 403 72
Due from State of Michigan	52 404 00
Prepaid expenses	<u>12 210 51</u>
Total Current Assets	<u>1 482 685 94</u>
NON-CURRENT ASSETS:	
Capital Assets	632 629 43
Less: Accumulated Depreciation	<u>(324 279 79)</u>
Total Non-current Assets	<u>308 349 64</u>
TOTAL ASSETS	<u><u>1 791 035 58</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	<u>67 388 44</u>
Total Current Liabilities	<u>67 388 44</u>
NON-CURRENT LIABILITIES	<u>-</u>
Total Non-current Liabilities	<u>-</u>
Total Liabilities	<u>67 388 44</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	308 349 64
Unrestricted	<u>1 415 297 50</u>
Total Net Assets	<u>1 723 647 14</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>1 791 035 58</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF LEE
Midland County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended March 31, 2006

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities</u>
		Charges for Services	Net (Expense) Revenue and Changes in Net Assets
FUNCTIONS/PROGRAMS			
Governmental Activities:			
Legislative	32 591 81	-	(32 591 81)
General government	122 899 35	9 189 40	(113 709 95)
Public safety	161 007 61	175 834 85	14 827 24
Public works	265 061 92	149 250 00	(115 811'92)
Culture and recreation	44 595 98	-	(44 595 98)
Total Governmental Activities	<u>626 156 67</u>	<u>334 274 25</u>	<u>(291 882 42)</u>
General Revenues:			
Property taxes			56 878 20
Other taxes			1 157 23
State revenue sharing			333 720 00
Interest			33 682 50
Miscellaneous			<u>2 124 66</u>
Total General Revenues			<u>427 562 59</u>
Change in net assets			135 680 17
Net assets, beginning of year			<u>1 587 966 97</u>
Net Assets, End of Year			<u>1 723 647 14</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF LEE
Midland County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
March 31, 2006

<u>Assets</u>	General	Fire	Solid Waste
Cash in bank	1 049 699 81	304 988 37	-
Petty cash	200 00	200 00	-
Taxes receivable	7 933 33	-	-
Special assessments receivable	-	17 956 85	28 706 72
Due from State of Michigan	52 404 00	-	-
Due from other funds	45 483 97	-	52 795 67
Prepaid expenses	6 833 51	5 377 00	-
	1 162 554 62	328 522 22	81 502 39
 <u>Liabilities and Fund Equity</u>			
Liabilities:			
Accounts payable	61 627 25	5 761 19	-
Due to other funds	63 893 36	37 837 78	-
Total liabilities	125 520 61	43 598 97	-
 Fund equity:			
Fund balances:			
Unreserved:			
Undesignated	1 037 034 01	284 923 25	81 502 39
Total fund equity	1 037 034 01	284 923 25	81 502 39
Total Liabilities and Fund Equity	1 162 554 62	328 522 22	81 502 39

The accompanying notes are an integral part of these financial statements.

<u>Other Funds</u>	<u>Total</u>
-	1 354 688 18
-	400 00
-	7 933 33
740 16	47 403 73
-	52 404 00
11 097 69	109 377 33
-	12 210 51
<u>11 837 85</u>	<u>1 584 417 08</u>

-	67 388 44
-	101 731 14
-	169 119 58

<u>11 837 85</u>	<u>1 415 297 50</u>
<u>11 837 85</u>	<u>1 415 297 50</u>
<u>11 837 85</u>	<u>1 584 417 08</u>

TOWNSHIP OF LEE
Midland County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
March 31, 2006

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	1 415 297 50
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	632 629 43
Accumulated depreciation	<u>(324 279 79)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>1 723 647 14</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF LEE
Midland County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year ended March 31, 2006

	General	Fire	Solid Waste
Revenues:			
Property taxes	56 878 20	-	-
Other taxes	1 157 23	-	-
State revenue sharing	333 720 00	-	-
Charges for services – cemetery	9 189 40	-	-
Charges for services – fire	-	50 130 00	-
Interest	28 442 24	5 240 26	-
Special assessments	-	125 704 85	146 585 00
Miscellaneous	2 059 45	65 21	-
	<u>431 446 52</u>	<u>181 140 32</u>	<u>146 585 00</u>
Total revenues			
Expenditures:			
Legislative:			
Township Board	32 591 81	-	-
General government:			
Supervisor	16 413 36	-	-
Assessor	18 380 40	-	-
Clerk	25 554 12	-	-
Audit	6 466 67	-	-
Board of Review	1 329 21	-	-
Treasurer	27 251 73	-	-
Building and grounds	17 917 72	-	-
Cemetery	8 023 78	-	-
Public safety:			
Fire protection	-	125 092 15	-
Liquor law enforcement	781 17	-	-
Ordinance enforcement	6 658 63	-	-
Planning and zoning	11 601 80	-	-
Public works:			
Highways and streets	121 313 97	-	-
Street lighting	4 719 36	-	-
Sanitation	1 269 11	-	117 554 93
Drains	14 009 16	-	-
Water	588 47	-	-
Culture and recreation:			
Parks and recreation	19 166 28	-	-
Library	23 407 00	-	-
	<u>357 443 75</u>	<u>125 092 15</u>	<u>117 554 93</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	<u>74 002 77</u>	<u>56 048 17</u>	<u>29 030 07</u>
Fund balances, April 1	<u>963 031 24</u>	<u>228 875 08</u>	<u>52 472 32</u>
Fund Balances, March 31	<u>1 037 034 01</u>	<u>284 923 25</u>	<u>81 502 39</u>

The accompanying notes are an integral part of these financial statements.

<u>Other Funds</u>	<u>Total</u>
-	56 878 20
-	50 130 00
-	333 720 00
-	9 189 40
-	1 157 23
-	33 682 50
2 665 00	274 954 85
-	<u>2 124 66</u>
<u>2 665 00</u>	<u>761 836 84</u>
-	32 591 81
-	16 413 36
-	18 380 40
-	25 554 12
-	6 466 67
-	1 329 21
-	27 251 73
-	17 917 72
-	8 023 78
-	125 092 15
-	781 17
-	6 658 63
-	11 601 80
1 559 34	122 873 31
-	4 719 36
-	118 824 04
-	14 009 16
-	588 47
-	19 166 28
-	<u>23 407 00</u>
<u>1 559 34</u>	<u>601 650 17</u>
<u>1 105 66</u>	<u>160 186 67</u>
<u>10 732 19</u>	<u>1 255 110 83</u>
<u>11 837 85</u>	<u>1 415 297 50</u>

TOWNSHIP OF LEE
Midland County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended March 31, 2006

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 160 186 67

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(24 506 50)
Capital Outlay	<u>-</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES 135 680 17

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF LEE
Midland County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Lee, Midland County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Lee. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF LEE
Midland County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2005 tax roll millage rate was 2.8550 mills, and the taxable value was \$66,431,102.00.

TOWNSHIP OF LEE
Midland County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$5,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	10-40 years
Furniture and equipment	10-20 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.

TOWNSHIP OF LEE
Midland County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

Note 2 – Budgets and Budgetary Accounting (cont.)

7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated eight banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>1 362 334 37</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	564 517 22
Uninsured and Uncollateralized	<u>807 070 90</u>
Total Deposits	<u>1 371 588 12</u>

The Township of Lee did not have any investments as of March 31, 2006.

TOWNSHIP OF LEE
Midland County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental activities for the current year was as follows:

	<u>Balance</u> 4/1/05	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> 3/31/06
<u>Governmental Activities:</u>				
Land and improvements	73 886 00	-	-	73 886 00
Buildings and improvements	184 965 43	-	-	184 965 43
Equipment	<u>373 778 00</u>	<u>-</u>	<u>-</u>	<u>373 778 00</u>
Total	632 629 43	-	-	632 629 43
Accumulated Depreciation	<u>(299 773 29)</u>	<u>(24 506 50)</u>	<u>-</u>	<u>(324 279 79)</u>
Net Capital Assets	<u>332 856 14</u>	<u>(24 506 50)</u>	<u>-</u>	<u>308 349 64</u>

Note 5 – Pension Plan

The Township has a defined contribution pension plan covering all full time employees. The Township contributes an amount of each employee's annual salary to the plan. The net pension expense for the fiscal year ended March 31, 2006, was \$14,440.56.

Note 6 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 7 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

The Township of Lee does not issue building permits. Building permits are issued by the County of Midland.

TOWNSHIP OF LEE
Midland County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 9 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	7 646 19	Current Tax Collection	7 646 19
General	37 837 78	Fire	37 837 78
Solid Waste	52 795 67	General	<u>63 893 36</u>
Oakridge Drive	3 410 59		
Ireland Drive	5 618 42		
Sian Drive	1 448 52		
Manitou Trail	<u>620 16</u>		
Total	<u>109 377 33</u>		<u>109 377 33</u>

TOWNSHIP OF LEE
Midland County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended March 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	54 171 00	53 871 00	56 878 20	3 007 20
Other taxes	-	-	1 157 23	1 157 23
State revenue sharing.	341 967 00	337 042 00	333 720 00	(3 322 00)
Charges for services – cemetery	3 224 26	1 883 60	9 189 40	7 305 80
Interest	1 300 00	1 300 00	28 442 24	27 142 24
Miscellaneous	5 849 21	7 941 40	2 059 45	(5 881 95)
Total revenues	406 511 47	402 038 00	431 446 52	29 408 52
Expenditures:				
Legislative:				
Township Board	214 488 00	211 988 00	32 591 81	(179 396 19)
General government:				
Supervisor	25 650 00	25 650 00	16 413 36	(9 236 64)
Elections	7 600 00	7 600 00	-	(7 600 00)
Assessor	22 500 00	22 500 00	18 380 40	(4 119 60)
Clerk	33 250 00	33 250 00	25 554 12	(7 695 88)
Audit	8 000 00	8 000 00	3 466 67	(1 533 33)
Board of Review	2 600 00	2 600 00	1 329 21	(1 270 79)
Treasurer	35 450 00	35 450 00	27 251 73	(8 198 27)
Building and grounds	29 600 00	29 600 00	17 917 72	(11 682 28)
Cemetery	20 500 00	20 500 00	8 023 78	(12 476 22)
Public safety:				
Liquor law enforcement	850 00	850 00	781 17	(68 83)
Ordinance enforcement	8 100 00	8 100 00	6 658 63	(1 441 37)
Planning and zoning	18 300 00	18 300 00	11 601 80	(6 698 20)
Public works:				
Highways and streets	120 500 00	121 500 00	121 313 97	(186 03)
Street lights	7 000 00	7 000 00	4 719 36	(2 280 64)
Sanitation	-	1 500 00	1 269 11	(230 89)
Drains	10 000 00	25 000 00	14 009 16	(10 990 84)
Water	5 000 00	5 000 00	588 47	(4 411 53)
Culture and recreation:				
Parks and recreation	33 650 00	33 650 00	19 166 28	(14 483 72)
Library	25 000 00	25 000 00	23 407 00	(1 593 00)
Total expenditures	628 038 00	643 038 00	357 443 75	(285 594 25)
Excess (deficiency) of revenues over expenditures	(221 526 53)	(241 000 00)	74 002 77	315 002 77
Fund balance, April 1	221 526 53	241 000 00	963 031 24	722 031 24
Fund Balance, March 31	-	-	1 037 034 01	1 037 034 01

TOWNSHIP OF LEE
Midland County, Michigan

BUDGETARY COMPARISON SCHEDULE – FIRE FUND
Year ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Special assessments	134 172 00	117 946 00	125 704 85	7 758 85
Charges for services	38 500 00	38 500 00	50 130 00	11 630 00
Interest	-	-	5 240 26	5 240 26
Miscellaneous	-	-	65 21	65 21
	<u>172 672 00</u>	<u>156 446 00</u>	<u>181 140 32</u>	<u>24 694 32</u>
Total revenues				
Expenditures:				
Public safety:				
Fire protection	225 618 00	225 618 00	125 092 15	(100 525 85)
Capital outlay	65 000 00	65 000 00	-	(65 000 00)
	<u>290 618 00</u>	<u>290 618 00</u>	<u>125 092 15</u>	<u>(165 525 85)</u>
Total expenditures				
Excess (deficiency) of revenues over expenditures	(117 946 00)	(134 172 00)	56 048 17	190 220 17
Fund balance, April 1	<u>117 946 00</u>	<u>134 172 00</u>	<u>228 875 08</u>	<u>94 703 08</u>
Fund Balance, March 31	<u>-</u>	<u>-</u>	<u>284 923 25</u>	<u>284 923 25</u>

TOWNSHIP OF LEE
Midland County, Michigan

BUDGETARY COMPARISON SCHEDULE – SOLID WASTE FUND
Year ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Special assessments	<u>148 675 00</u>	<u>147 440 00</u>	<u>146 585 00</u>	<u>(855 00)</u>
Total revenues	<u>148 675 00</u>	<u>147 440 00</u>	<u>146 585 00</u>	<u>(855 00)</u>
Expenditures:				
Public works:				
Solid waste	<u>147 440 00</u>	<u>147 440 00</u>	<u>117 554 93</u>	<u>(29 885 07)</u>
Total expenditures	<u>147 440 00</u>	<u>147 440 00</u>	<u>117 554 93</u>	<u>(29 885 07)</u>
Excess (deficiency) of revenues over expenditures	1 235 00	-	29 030 07	29 030 07
Fund balance, April 1	<u>-</u>	<u>-</u>	<u>52 472 32</u>	<u>52 472 32</u>
Fund Balance, March 31	<u><u>1 235 00</u></u>	<u><u>-</u></u>	<u><u>81 502 39</u></u>	<u><u>81 502 39</u></u>

TOWNSHIP OF LEE
Midland County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended March 31, 2006

Township Board:	
Salaries and per diem	10 530 00
Pension	14 440 56
Payroll taxes	152 73
Contracted services	860 00
Education	672 00
Dues	1 833 66
Travel	125 44
Printing and publishing	392 55
Attorney	1 950 00
Economic development	880 00
Workers compensation	754 87
	<u>32 591 81</u>
Supervisor:	
Salaries and per diem	14 250 00
Deputy	1 200 00
Payroll taxes	224 03
Miscellaneous	739 33
	<u>16 413 36</u>
Assessor:	
Contracted services	17 406 09
Supplies	974 31
	<u>18 380 40</u>
Clerk:	
Salaries and per diem	14 390 00
Deputy	1 800 00
Payroll taxes	234 77
Supplies	1 014 64
Training	3 947 25
Miscellaneous	4 167 46
	<u>25 554 12</u>
Audit	<u>6 466 67</u>
Board of Review:	
Wages and miscellaneous	<u>1 329 21</u>
Treasurer:	
Salaries and per diem	16 790 00
Deputy	1 200 00
Payroll taxes	260 86
Supplies	3 750 14
Miscellaneous	5 250 73
	<u>27 251 73</u>

TOWNSHIP OF LEE
Midland County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT

Year ended March 31, 2006

Building and grounds:	
Salary	4 875 00
Supplies	898 66
Fuel	2 736 45
Repairs and maintenance	4 125 87
Utilities	1 626 14
Repairs and maintenance	3 655 60
	<u>17 917 72</u>
Cemetery:	
Salary and wages	6 412 61
Miscellaneous	1 611 17
	<u>8 023 78</u>
Liquor law enforcement	<u>781 17</u>
Ordinance enforcement:	
Salaries and per diem	6 480 00
Miscellaneous	178 63
	<u>6 658 63</u>
Planning and zoning:	
Salaries and per diem	10 075 00
Miscellaneous	1 526 80
	<u>11 601 80</u>
Highways and streets:	
Maintenance	<u>121 313 97</u>
Street lighting:	
Utilities	<u>4 719 36</u>
Sanitation:	
Insurance	<u>1 269 11</u>
Drains	<u>14 009 16</u>
Water	<u>588 47</u>
Parks and recreation:	
Salaries	3 300 00
Contracted services	7 840 00
Repairs and maintenance	1 954 27
Community promotion	2 500 00
Insurance	2 139 19
Miscellaneous	1 432 82
	<u>19 166 28</u>
Library	<u>23 407 00</u>
Total Expenditures	<u>357 443 75</u>

TOWNSHIP OF LEE
Midland County, Michigan

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS
March 31, 2006

<u>Assets</u>	Fire	Solid Waste	Oakridge Drive
Cash in bank	304 988 37	-	-
Petty cash	200 00	-	-
Special assessments receivable	17 956 85	28 706 72	200 00
Due from other funds	-	52 795 67	3 410 59
Prepaid expenses	5 377 00	-	-
Total Assets	328 522 22	81 502 39	3 610 59
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	5 761 19		
Due to other funds	37 837 78	-	-
Total liabilities	43 598 97	-	-
Fund balances:			
Unreserved:			
Undesignated	284 923 25	81 502 39	3 610 59
Total fund balances	284 923 25	81 502 39	3 610 59
Total Liabilities and Fund Balances	328 522 22	81 502 39	3 610 59

<u>Ireland Drive</u>	<u>Sian Drive</u>	<u>Manitou Trail</u>	<u>Total</u>
-	-	-	304 988 37
-	-	-	200 00
315 16	225 00	-	47 403 73
5 618 42	1 448 52	620 16	63 893 36
-	-	-	5 377 00
<u>5 933 58</u>	<u>1 673 52</u>	<u>620 16</u>	<u>421 862 46</u>
-	-	-	-
-	-	-	<u>43 598 97</u>
<u>5 933 58</u>	<u>1 673 52</u>	<u>620 16</u>	<u>378 263 49</u>
<u>5 933 58</u>	<u>1 673 52</u>	<u>620 16</u>	<u>378 263 49</u>
<u>5 933 58</u>	<u>1 673 52</u>	<u>620 16</u>	<u>421 862 46</u>

TOWNSHIP OF LEE
Midland County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - ALL SPECIAL REVENUE FUNDS
Year ended March 31, 2006

	Fire	Solid Waste	Oakridge Drive
Revenues:			
Charges for services	50 130 00	-	-
Special assessments	125 704 85	146 585 00	650 00
Interest	5 240 26	-	-
Miscellaneous	65 21	-	-
	181 140 32	146 585 00	650 00
Total revenues			
Expenditures:			
Public safety:			
Fire protection	125 092 15	-	-
Public works:			
Highways and streets	-	-	338 49
Solid waste	-	117 554 93	-
	125 092 15	117 554 93	338 49
Total expenditures			
Excess (deficiency) of revenues over expenditures	56 048 17	29 030 07	311 51
Fund balances, April 1	228 875 08	52 472 32	3 299 08
Fund Balances, March 31	284 923 25	81 502 39	3 610 59

<u>Ireland Drive</u>	<u>Sian Drive</u>	<u>Manitou Trail</u>	<u>Total</u>
-	-	-	50 130 00
1 140 00	525 00	350 00	274 954 85
-	-	-	5 240 26
-	-	-	65 21
<u>1 140 00</u>	<u>525 00</u>	<u>350 00</u>	<u>330 390 32</u>
-	-	-	125 092 15
871 89	348 96	-	1 559 34
-	-	-	117 554 93
<u>871 89</u>	<u>348 96</u>	<u>-</u>	<u>244 206 42</u>
<u>268 11</u>	<u>176 04</u>	<u>350 00</u>	<u>86 183 90</u>
<u>5 665 47</u>	<u>1 497 48</u>	<u>270 16</u>	<u>292 079 59</u>
<u>5 933 58</u>	<u>1 673 52</u>	<u>620 16</u>	<u>378 263 49</u>

TOWNSHIP OF LEE
Midland County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year ended March 31, 2006

	<u>Balance 4/1/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 3/31/06</u>
<u>Assets</u>				
Cash in Bank	<u>8 697 13</u>	<u>1 956 493 33</u>	<u>1 957 544 27</u>	<u>7 646 19</u>
<u>Liabilities</u>				
Due to other funds	7 023 41	294 270 44	293 647 66	7 646 19
Due to others	<u>1 673 72</u>	<u>1 662 222 89</u>	<u>1 663 896 61</u>	<u>-</u>
Total Liabilities	<u>8 697 13</u>	<u>1 956 493 33</u>	<u>1 957 544 27</u>	<u>7 646 19</u>

TOWNSHIP OF LEE
Midland County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Year ended March 31, 2006

Cash in bank – beginning of year	<u>8 697 13</u>
Cash receipts:	
Property taxes	1 956 362 57
Interest	<u>130 76</u>
Total cash receipts	<u>1 956 493 33</u>
Total beginning balance and cash receipts	<u>1 965 190 46</u>
Cash disbursements:	
Township General Fund	185 842 44
Township Fire Fund	107 805 22
Midland County	956 457 16
Breckenridge School District	64 866 13
Bullock Creek School District	511 379 74
Delta College	117 021 13
Midland County ESA	31 93
Meridian School District	8 685 28
Refunds	<u>5 455 24</u>
Total cash disbursements	<u>1 957 544 27</u>
Cash in Bank – End of Year	<u><u>7 646 19</u></u>

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

July 28, 2006

To the Township Board
Township of Lee
Midland County, Michigan

We have audited the financial statements of the Township of Lee for the year ended March 31, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Lee in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board
Township of Lee
Midland County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2006.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,



CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants